

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SS-20 NSC-07 STR-08 CEA-02 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01

OMB-01 DRC-01 /129 W

----- 067032

R 120814Z MAR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 532

UNCLAS TOKYO 3254

E.O. 11652: N/A

TAGS: ECON, EFIN, JA

SUBJECT: MORE OPTIMISTIC GROWTH PROSPECTS IN FYJ 1974

PASS TREASURY AND FEDERAL RESERVE

SUMMARY: LATEST FORECAST OF JAPANESE ECONOMIC RESEARCH COUNCIL (JERC), WHICH PROBABLY HAS THE BEST FORECAST RECORD, HAS REVISED UPWARD REAL GNP GROWTH IN JFY 74 TO 4.4 PERCENT FROM 3.7 PERCENT IN ITS DEC 73 FORECAST (TOKYO 15,602, DEC 12, 1973, AND TOKYO A-992, DEC 21, 1973). THIS COMPARES TO OFFICIAL GOJ FORECAST OF ONLY 2.5 PERCENT REAL GROWTH. INFLATION ON OTHER HAND CONSIDERED MORE SEVERE AND B/P PROSPECTS ARE FOR SMALLER CURRENT ACCOUNT SURPLUS OF \$1.3 BIL BUT LARGER DEFICIT BASIC BALANCE OF \$3.9 BIL, IN LATEST FORECAST. PROVISIONAL GNP FIGURES FOR FOURTH QUARTER 1973 RELEASED BY EPA CONFIRM PICKUP IN REAL GROWTH RATE SINCE SUMMER CY 1973 INCREASE OF 11.0 PERCENT VIRTUALLY SAME AS PREVIOUS EMBASSY ESTIMATES. END SUMMARY.

1. HIGHLIGHTS OF NEW JERC FORECAST ARE AS FOLLOWS (IN PERCENTAGE INCREASE, WITH PREVIOUS FORECAST IN PARENTHESES): FOR JFY 74 REAL GNP 4.4 (3.7), NOMINAL GNP 25.7 (19.5), WPI 25.9 (16.6), CPI 22.3 (13.4), MINING AND MANUF PRO-
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DUCTION INDEX 5.2 (1.6). FOR CY 74 COMPARED WITH JERC

ESTIMATES OF CY 1973; REAL GNP 2.8, NOMINAL GNP 25.0,
WPI 32.0, CPI 24.5, MINING AND MANUF PRODUCTION
INDEX 5.0.

2. QURTER TO QUARTER PERCENT CHANGES OF SEASONALLY
ADJUSTED FIGURES ARE AS FOLLOWS: (A IS NOMINAL GNP,
B IS REAL GNP, C IS MINING AND MANUF PRODUCTION INDEX,
D IS 208)

	A	B	C	D
1973 4TH Q	7.1	1.8	3.2	8.7
1971 1ST Q	4.5	MINUS 1.7	MINUS 1.2	14.4
2ND Q	5.9	0.7	0.4	4.1
3RD Q	6.1	2.2	1.7	2.4
4TH Q	6.9	3.0	2.8	3.0
1975 1ST Q	6.0	2.6	3.4	2.9
2ND Q	5.4	3.0	3.2	3.0
3RD Q	5.2	3.0	3.5	3.3

3. ASSUMPTIONS OF FORECAST ARE: 1) SOME EASING OF
MONETARY POLICY IN SECOND HALF JFY 74; 2) NO SIGNIFICANT
OIL SHORTAGES; 3) DURING BUSINESS SLOWDOWN WAGE BONUSES
AND OVERTIME ALLOWANCES WILL SLACKEN BUT PRICE RISES
WILL REMAIN LARGE; 4) EXCHANGE RATE WILL BE IN THE RANGE
OF 300 YEN PER DOLLAR.

4. BALANCE OF PAYMENTS: NEW FORECAST MORE OPTIMISTIC
THAN DEC FORECAST FOR EXPORT PROSPECTS AND REDUCED NET
LONG-TERM CAPITAL EXPORTS BUT MORE PESSIMISTIC ON IMPORT
GROWTH AND DEFICIT ON INVISIBLES. BIGGEST DETERIORATION
ANTICIPATED IN FIRST QUARTER 1974 WITH CURRENT
ACCOUNT DEFICIT OF \$1.25 BIL. IMPROVEMENT THEREAFTER
ON SEASONALLY ADJUSTED BASIS, WITH SURPLUS FORECAST ON CURRENT
ACCOUNT BY THIRD QUARTER. COMPONENTS OF PROJECTION NEEDED DOL FOR
JFY 74 AS FOLLOWS (WITH CY 74 IN PARENTHESES):
TRADE BALANCE 6.1 (4.5); EXPORTS UP 35.8 PERCENT TO 52.6
(49.5); IMPORTS UP 26.0 PERCENT TO 46.5 (45.0); SERVICES
MINUS 4.3 (MINUS 4.4); TRANSFERS MINUS 0.3 (MINUS 0.4);
CURRENT ACCOUNT 1.3 (MINUS 0.4); LONG-TERM CAPITAL
MINUS 5.2 (MINUS 5.4); BASIC BALANCE MINUS 3.9 (MINUS 5.8).
QUARTERLY FIGURES SEASONALLY ADJUSTED IN BIL DOL FOR
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CURRENT ACCOUNT (BASIC BALANCE DEFICIT IN PARENTHESES)
AS FOLLOWS: 1974 1ST MINUS 1.25 (2.8), 2ND MINUS 0.5
(1.8), 3RD 0.2 (1.2), 4TH 0.9 (0.3), 1975 1ST 0.7 (0.6),
2ND 0.7 (0.7), AND 3RD MINUS 0.05 (1.6).

5. USUAL DETAILED AIRGRAM ON JERC FORECAST TO FOLLOW.

6. PROVISIONAL FOURTH QUARTER 1973 GNP FIGURES ARE VERY

TENTATIVE ESTIMATES. EVEN FIGURES FOR SECOND AND THIRD QUARTERS ARE STILL PROVISIONAL BUT HAVE BEEN REVISED FROM THOSE PREVIOUSLY RELEASED (E.G. GOJ ECON STATISTICS MONTHLY, JAN 74). THESE REVISIONS NO LONGER SHOW PROGRESSIVE SLOWING IN RATE OF EXPANSION DURING 1973 (TOKYO A-982, DEC 19, 1973, PARA B(2)). INSTEAD, ECONOMIC RECOVERY CONTINUED TO ACCELERATE IN EARLY 1973 BUT WAS THEN HALTED BY SERIOUS SUPPLY CONSTRAINTS. FINAL QUARTER SHOWED REVIVAL IN GROWTH RATE AS SUPPLY PROBLEMS EASED SOMEWHAT.

7. EMBASSY CAUTIONS THAT FIGURES SUBJECT TO SUBSTANTIAL FURTHER REVISIONS. THERE ARE SERIOUS MEASUREMENT PROBLEMS, ESPECIALLY FOR INVENTORY INVESTMENT, PROBLEMS OF ACCURATE DEFLATION DURING PERIOD OF RAPID INFLATION AND SEASONAL ADJUSTMENT METHODS MAY HAVE SHORTCOMINGS DURING PERIOD OF SUPPLY CONSTRAINTS. MOREOVER, SEASONALLY ADJUSTED QUARTERS DO NOT EQUAL CALENDAR YEAR TOTAL AS RESULT OF ADJUSTMENT TECHNIQUE USED. THESE FACTORS RESULT, FOR EXAMPLE, IN LARGE FLUCTUATIONS IN RATE OF REAL CONSUMPTION GROWTH, WHICH EMBASSY UNABLE TO RECONCILE WITH OTHER DATA (E.G. DOMESTIC AUTO SALES).

8. FOLLOWING ARE HIGHLIGHTS OF REVISED GNP FIGURES SHOWN AS PERCENTAGE INCREASE FROM PREVIOUS QUARTER: COL A NOMINAL GNP, COL B REAL GNP, COL C REAL FINAL DOMESTIC EXPENDITURE (I.E. GNP LESS INVENTORY CHANGE AND NET

FOREIGN BAL, COL D REAL PERSONAL CONSUMPTION.

	A	B	C	D
4TH Q 72	5.3	3.6	2.6	2.7
1ST Q 73	6.0	4.3	4.6	2.1

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WND Q 73	6.0	0.9	0.5	1.1
3RD Q 73	4.1	0.4	2.6	1.7
4TH Q 73	8.3	1.4	2.8	3.2
CY73/72	24.5	11.0	11.6	8.7

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, ECONOMIC CONDITIONS, INFLATION, RESEARCH, ECONOMIC RECOVERY, ECONOMIC DATA, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO03254
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740349/aaaabtsj.tel
Line Count: 159
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUL 2002 by elbezefj>; APPROVED <09 DEC 2002 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MORE OPTIMISTIC GROWTH PROSPECTS IN FJY 1974 PASS TREASURY AND FEDERAL RESERVE
TAGS: ECON, EFIN, JA, JERC, JAPANESE ECONOMIC RESEARCH COUNCIL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005